

## **SA: Alive with challenges**

### ***Part 1: The context***

#### **Tony Manning**

Business in a post-September 11 environment is different than anything that went before. There are new risks and uncertainties. There are also plenty of exciting opportunities. But the question is: will we “seize the day?”

SA business has a lot to be proud of. A growing number of local companies now deserve the title “world class.” More will get there quite soon. Productivity is rising. There’s a welcome shift in management style from rigid autocracy to one that’s more open and participative. People from diverse backgrounds are working well together. And people matters now get more time than ever from top management.

This country is, as its marketing slogan says, “alive with possibilities.” Yet while there are many reasons to be optimistic – and lots of pressure to focus on the positive – our future is threatened by a central issue: our ability to create it.

A recent survey comparing SA managers to their peers in other countries suggests that we’re likely to take a strategic view of things, but then act too fast. But my experience of working with hundreds of companies and thousands of executives suggests that reality is quite different. Most local managers are uncomfortable about looking too far ahead. Because they know there’s some unpalatable stuff out there, they work hard to deny reality. And when it comes to action, why, they’d much rather keep talking!

A decade ago, for example, you could predict that HIV/Aids would be a deadly issue, that transformation would become a big deal, that companies would be under growing pressure to fulfill a social role, and that there would be too few managers and too many unskilled people. You could foresee problems in education, increasing unemployment, rising crime, and the crumbling of social values. And you could place bets on inadequate economic growth, too little foreign direct investment, and a widening poverty gap.

Yet today, as these matters crowd the headlines, smart business leaders are shocked and unprepared to deal with them. Too often, their response is to turn away and focus on the good news. If they do act, it’s too little, too late.

The Department of Labour has to threaten companies to get the employment equity reports that the law requires them to submit. Hordes of firms chase the same few black executives to fill key jobs. White men still fill more than nine out of ten CEO positions, and young white males are still likelier than members of other groups to find work. Sector education and training authorities (SETAs) complain that companies aren’t using the training support for which they pay. Various industries are suddenly crafting transformation charters to avoid government action against them. Most firms do not yet have effective policies and strategies for dealing with HIV/Aids.

Government is doing much to shape an environment conducive to business, provide the needed skills, and encourage sound practices in labour relations. But it is also doing a lot

to ensure that we move too slowly, that progress is difficult, and that becoming a “winning nation” is harder than it need be.

Unfortunately, one era of social engineering has given way to another, of a different kind. We know too well the consequences of the first. We can only guess what those of the second will be.

### **Wanted: work and workers**

People are the make or break factor in any society. Yet *SA has a human resources crisis. And if we continue on our chosen path, it will get much worse much faster than anyone imagines.*

On the one hand, there are not enough jobs. On the other, we don't have enough managers, we don't have enough skilled workers, and we will have too few of both in the future. In both private and public sector organizations, goals are not met and promises are not kept. So economic – and thus social – targets remain elusive.

SA's unemployment rate is anywhere from 30% to 50%, depending on whose estimates you believe. Every year, 750 000 job seekers enter the market, but just one in five can get work.<sup>i</sup> Without serious foreign direct investment (FDI), there's no chance economic growth will hit the 6%–7% level needed just to stop this calamitous situation getting worse. But SA gets less than 1% of the total FDI that goes to developing countries, and anyway, FDI to *all* developing countries has been cut in the past few years because of the global economic slump.<sup>ii</sup>

Foreign firms cite HIV/Aids, crime and corruption, the skills shortage, and stringent labour laws as reasons not to put down roots here. And why should they, when there are easier places to do business?

In any event, those that do come will not be big employers – and especially not of semi-skilled or unskilled workers. Cheap skills are available in too many other places. Local trade unions have priced their own members out of jobs, and prevent non-members – the poorest of the poor – from working for wages that would keep them alive.

Since 1994, the illusion has been fostered that there's a huge opportunity to create factory jobs in SA. But long before then, those jobs were rapidly shifting to low-wage countries like Taiwan, Malaysia, South Korea, and Mexico. India is now aggressively promoting itself as a manufacturing centre. European countries such as Turkey, Poland, and the Czech Republic are increasingly competitive. Nobuyuki Idei, the chairman and CEO of Sony, recently noted that “China is a factory.” Meanwhile, an article in *The Wall Street Journal Europe* reports that “manufacturing jobs are disappearing around the globe.”<sup>iii</sup>

The rand's recent strength has been good for importers and consumers, but awful for exporters. Mining companies have warned that 70 000 to 80 000 jobs are in jeopardy. The SA Textile Federation sees 12 000 jobs at risk – and even more when developing countries' quota limits fall away at the end of 2004. Dorbyl CE Bill Cooper warns that 30 000 manufacturing jobs may be lost altogether; 700 of them in his own company.<sup>iv</sup>

The cost of doing business in SA is rising. Eddie Keizan, chairman of Tiger Wheels, recently said it was cheaper to make wheels in Germany – *Germany*, for God's sake! – than in SA.<sup>v</sup> Bell Equipment, based in Richards Bay, might shift its manufacturing

operations to Germany to stay in profit. Bosal used to make stainless steel parts for its exhaust systems in Pretoria; now, it does the work in the Benelux countries.<sup>vi</sup>

The tourism industry – long held out as the great hope for job creation – is also taking strain. Foreign tourist arrivals were up an encouraging 12% in 2002, but have recently fallen. Tourvest, the biggest player in this sector, issued a profit warning in October. Then Avis announced “a cautious approach with respect to its planning.”

One area where jobs might be created is call centres. But again, the competition from other countries is fierce.

All in all, there’s no hiding the fact that the outlook for jobs is not good. But what about the *supply* of skilled people who will do tomorrow’s knowledge work? And more critically, what about the supply of managers who will have to create jobs, organize work, and make things happen?

Importing people is not easy. So we have to “grow our own” – and that’s not working very well.

The education system is taking too long to deliver. Pass rates in many schools are appalling. In maths and science, South African students rank right near the bottom globally. There’s a looming teacher shortage.

Anecdotal evidence says standards are falling in many universities. One can only imagine the negative consequences of the mergers now taking place between some universities and technikons. (Most business mergers fail; the chances of success in these politically-charged marriages can’t be good!)

And what about the quality of teaching in business schools and management programmes? Although a welcome stream of foreign academics is coming here to share their knowledge, local talent is thin on the ground. Little is published that’s either original or noteworthy. Tired concepts are endlessly recycled. The quest for an “African leadership model,” for example, has yielded nothing but more references to *ubuntu* – and no one has yet explained what’s unique about that.

Then there’s HIV/Aids catastrophe. In a report much criticized by local officials, the World Bank warns that SA will suffer “a complete economic collapse” within four generations if we don’t act fast to fight the epidemic.<sup>vii</sup> Every day, 1 700 people contract the disease; 25% of the workforce is now infected. By 2008, some 500 000 people will die each year, and the population will be 16% smaller than it would have been without Aids. By 2015, around 4,4 million people will have died. Life expectancy is headed downwards, from about 60 years to just 40.

There’s a common view that HIV/Aids is most likely to strike those who are least needed – those at the bottom of the skills pile. But as Clem Sunter keeps saying, *everyone* is a potential victim. A recent SA Reserve Bank report shows that it’s skilled or semi-skilled people who are most likely to exit the workforce because of HIV/Aids. What’s more, 59% of these are women – this at a time when women are seen as a key resource.<sup>viii</sup>

As more workers are infected, and as more infected workers progress from HIV to full-blown Aids, absenteeism will increase. But “*presenteeism*” may be an even greater problem. For people who turn up may not be able to do their jobs. The boss’s fine vision

of the future won't excite them, because they will know they have no future. And they might be inclined towards dysfunctional behaviour – even criminality – because they have nothing to lose.

### **Developing managers to go**

There's both good news and bad news in the fact that SA is a "hothouse" of management development.

The good news is that executives here get everything thrown at them. In this slow-growth economy, they feel all the impacts of globalization, deregulation, and privatization. They deal daily with tough international competitors, and often tougher local ones. They have to cope with a tangle of red tape, job-destroying labour policies, and aggressive unions. And to "play business" in SA they have to deal with a shortage of skills, HIV/Aids, transformation, corporate social investment, pressure to comply with the King II recommendations on corporate governance, crime and corruption, and a volatile currency. They learn a lot of stuff about a lot of stuff – and fast.

The bad news is, this makes them attractive to overseas employers. And the brain drain is alive and well.

According to Statistics SA, 11 671 people emigrated between January and August 2003, up from 8 080 in the same period in 2002.<sup>ix</sup> But research at the University of Cape Town put the number of professionals leaving between 1989 and 1997 at 41 496 – *four times higher* than the official number of 11 255.<sup>x</sup> At the same time, the number of skilled foreigners coming to work here has fallen; and *the sharpest drop has been in managerial and executive areas*.

But never mind, we're told. There's plenty of talent "out there." But is this so? And if it is, how do you bring it "in here?" How do you attract, integrate, and retain the people you need?

These, then, are some of the issues SA managers must contend with. Clearly, their work will not get easier. Clearly, too, the work of human resources professionals will become increasingly important.

SA has embarked on a journey of great importance. In prospect is "a better life for all." But if we don't rapidly get to grips with some of our people issues, that will turn out to be just another empty promise.

*Tony Manning is an independent consultant in competitive strategy and change management. His most recent book is Competing Through Value Management. He can be contacted at [strategist@tonymanning.com](mailto:strategist@tonymanning.com).*

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<sup>i</sup> Gaenor Vaida, "The great jobs gap," *Sunday Times Business Times*, August 3, 2003

<sup>ii</sup> Reg Rumney, "Foreign investment falls flat," *Business Day*, October 28, 2003

<sup>iii</sup> "Factory layoffs are a global issue, research shows," *The Wall Street Journal Europe*, October 20, 2003

<sup>iv</sup> "Revival in rand seen as a threat to 30 000 factory jobs," *Business Day*, October 28, 2003

<sup>v</sup> Interview with Alec Hogg on *Classic FM*, September 2, 2003

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- <sup>vi</sup> “Exhausted by SA prices,” *Financial Mail*, October 31, 2003
- <sup>vii</sup> Geoff Dyer, “Economic collapse in S Africa without action on Aids,” *Financial Times*, July 15, 2003
- <sup>viii</sup> “HIV/Aids and the loss of household income,” *ThisDay*, October 29, 2003
- <sup>ix</sup> “Skills flight from SA bucks upbeat outlook,” *Business Day*, October 31, 2003
- <sup>x</sup> Peter Dickson, “Brain drain claims thousands more,” *Independent Online*, October 15, 2002